

Message Text

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ORIGIN ARA-20

INFO OCT-01 ISO-00 EB-12 TRSE-00 SS-20 SP-03 IO-14 AID-05

STR-08 COME-00 FRB-03 OMB-01 XMB-07 CIAE-00 INR-11

NSAE-00 RSC-01 /106 R

DRAFTED BY IDB;JPORGES

APPROVED BY EB/IFD/ODF:RSGELBARD

TREAS:TBURKE

ARA/APU:ABRAZEAL

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R 041456Z OCT 74

FM SECSTATE WASHDC

TO AMEMBASSY ASUNCION

C O N F I D E N T I A L STATE 218857

E.O. 11652: N/A

TAGS: IDB, EFIN, PA

SUBJECT: IDB LOAN TO ANDE

REF: ASUNCION 3668

FOR AMBASSADOR LANDAU FROM JOHN M. PORGES, U.S. EXECUTIVE
DIRECTOR

1. AFTER DISCUSSION WITH SENIOR MANAGEMENT OF BANK WISH TO
ADVISE FOLLOWING: IDB IS AWARE OF ANDE'S DESIRE TO HAVE
THE FORTHCOMING LOAN MADE DIRECTLY TO IT RATHER THAN IN
TWO-STEP PROCESS VIA GOVERNMENT. THUS FAR, ANDE'S PRINCIPAL
ARGUMENT TO THE BANK HAS BEEN ONE BASED ON CONSIDERATIONS
OF PRESTIGE, ALLEGING A PRESUMED DAMAGE TO ANDE'S
CREDITWORTHINESS IF THE BANK REFUSED TO MAKE THE LOAN
DIRECTLY TO ANDE. OBVIOUSLY, IDB WILL NOT BASE DECISION
ON ONLY THIS ARGUMENT.

2.FOR PROJECTS OF THIS TYPE (CLEARLY ECONOMIC, REVENUE-

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PRODUCING NATURE, AND REVENUE-PRODUCING AUTONOMOUS

ENTERPRISE), BANK'S POLICY NOW PERMITS LOANS TO BE MADE WITH FSO, RATHER THAN OC, FUNDS IN THE CASE OF THE LEAST DEVELOPED COUNTRIES. THE BANK'S POLICY NORMALLY REQUIRES, HOWEVER, THAT THE BENEFITS OF CONCESSIONAL FINANCING NOT BE PASSED ON TO THE ENTERPRISE, BUT RETAINED BY THE GOVERNMENT FOR GENERAL ECONOMIC AND SOCIAL DEVELOPMENT PURPOSES OF A PRIORITY NATURE. AMONG THE LATTER ARE INCLUDED THE PROVISION OF LOCAL CURRENCY COUNTERPART FOR EXTERNALLY-FINANCED DEVELOPMENT LOANS, WHICH, PARTICULARLY IN THE CASE OF PARAGUAY, HAS REPRESENTED A SERIOUS BOTTLENECK AND OBSTACLE TO DEVELOPMENT IN THESE COUNTRIES.

3. THE TWO-STEP PROCEDURE DOES NOT INVOLVE TWO-STEP PROCEDURES IN PROJECT IMPLEMENTATION, AS FEARED BY ANDE. FOR PURPOSES OF PROJECT EXECUTION AND LOAN DISBURSEMENTS THE BANK WOULD WORK DIRECTLY WITH ANDE, WITHOUT THE GOVERNMENT AS INTERMEDIARY. THE "TWO-STEP" PROCEDURE IS PRIMARILY A FINANCIAL MECHANISM AFFECTING THE CHANNELING AND DISPOSITION OF INTEREST AND PRINCIPAL REPAYMENTS RATHER THAN A PROCEDURE AFFECTING PROJECT EXECUTION.

4. IDB HAS INFORMED US THAT THEY HAVE NOT COMPLETED THEIR STUDY OF THE PROJECT AND THEY WILL, OF COURSE, BEAR IN MIND ANDE'S VIEWS, INCLUDING THE POINTS MADE WITH RESPECT TO TAXATION (ON WHICH IDB CAN OBTAIN SUCH CONTRACTUAL ASSURANCES FROM THE GOVERNMENT AS MAY BE NECESSARY). IT IS CURRENTLY EXPECTED THAT LOAN PROPOSAL WILL BE READY FOR REVIEW INTERNALLY ABOUT MID-OCTOBER. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, DEVELOPMENT LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 04 OCT 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CollinP0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE218857
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: DG ALTERED
Executive Order: GS
Errors: N/A
Film Number: D740282-0184
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741071/aaaaciwy.tel
Line Count: 89
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: ASUNCION 3668
Review Action: RELEASED, APPROVED
Review Authority: CollinP0
Review Comment: n/a
Review Content Flags:
Review Date: 19 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 SEP 2002 by cunninfx>; APPROVED <05 MAR 2003 by CollinP0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: IDB LOAN TO ANDE
TAGS: EFIN, PA, IDB, ANDE
To: ASUNCION
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005